

Explain to me again how a single-family home is an investment.

Try to speak slowly, using small words you're sure I'll understand.

The Wall Street Journal had an interesting [article](#) this past month about a house once owned by Groucho Marx coming up for sale.

Groucho bought this lovely five-bedroom, 3,800 square foot home in 1926, when he and his brothers were appearing in their Broadway smash hit show *The Cocoanuts*. He lived there until 1931, when the Marx Brothers decamped to Hollywood.

The home is located in Great Neck, Long Island (Fitzgerald's "West Egg" in *The Great Gatsby*), which was just then coming into its own as a "new money" exurb of New York City. Groucho paid \$27,000 for it in 1926—and thereby hangs a tale.

The house is listed for sale at an asking price of \$2.3 million, and appears well worth it, as Great Neck is now a mature and very attractive bedroom community—an easy commute to Manhattan, that is if anyone is still commuting to Manhattan, or ever will again.



Being a multigenerational mainstream equity investor, busily nurturing two succeeding generations of long-term equity compounders, I could not forbear to calculate what that \$27,000 would have become had Groucho placed it in large company equities, and left it there. (Specifically, I measured from December 1926 through July of this year.) The answer—based on historical data provided by the Nobel laureate Robert Shiller—is something in excess of \$304 million.

It will be objected that this is an extrapolative fantasy, given that no one could have gone on paying, from some other source, ordinary income taxes on the compounding dividends all this time. This argument is not entirely without merit; I'm guessing said taxes to a 30% taxpayer would currently be running at somewhere around a million and a half dollars a year ($\$304m \times .015\% \text{ dividend yield} \times 30\%$).

To this cavil I respond: yes, and the comparison also ignores 97 years of Nassau County real estate taxation, insurance premiums, fuel bills, repairs and maintenance.

I don't think one need press this point too hard. Nor would I attempt to hang an argument on just one house. The Case Shiller Index of home prices sports a long-term compounded rate of real return around one percent. Groucho's Great Neck home is just one anecdotal example of this.

As investment advisors, you and I will never be free of the canard that "real estate"—whatever that term is taken to mean at any given moment—is a better investment than mainstream equities. But at least we never have to suffer the indignity of the suggestion that a single-family home is a better store of real value than five hundred of the largest, most profitable, most soundly financed and most innovative companies in the United States and the world.